Gordon Mackay & Stores Limited

24th ANNUAL REPORT January 31, 1970



WALKER'S
1969 Judy Award winner for fashion merchandising excellence

Subsidiary Companies

Gordon Mackay and Company Limited
Smith's of Windsor Limited
C. H. Smith Holdings Limited
Walker Stores Limited

Retail stores are operated by Smith's of Windsor Limited in Windsor, Ontario and by Walker's Division of Gordon Mackay and Company Limited in:

Arnprior
Barrie
Belleville
Bowmanville
Brantford
Brockville
Chatham
Collingwood
Dunnville
Galt
Guelph
Kitchener
Lindsay
London
Midland
Newmarket
Niagara Falls
North Bay
Orillia
Oshawa
Owen Sound
Pembroke
Peterborough
Port Colborne
Renfrew
Ridgetown
St. Catharines
St. Thomas
Sault Ste. Marie:
- Churchill Plaza
- Queen Street

Simcoe
Smiths Falls
Stratford
Thunder Bay
Tillsonburg
Toronto:
- Cloverdale Mall
- Dixie Plaza
- Dufferin Plaza
- Rexdale Plaza
- Shopper's World

Woodstock

Directors

A. W. Baillie
P. J. R. Chadsey
R. W. L. Laidlaw
R. J. O'Donnell
W. G. M. Robinson, O.B.E., C.A.
G. M. Scott, C.A.
J. W. Walker, O.B.E., Q.C.
W. L. Wheler
D. M. Woods
P. L. Woods

Officers

President
David M. Woods
Vice-President
James W. Walker, O.B.E., Q.C.
Secretary-Treasurer
A. T. Dickenson, C.A.

Transfer Agents

National Trust Company, Limited, Toronto

Counsel

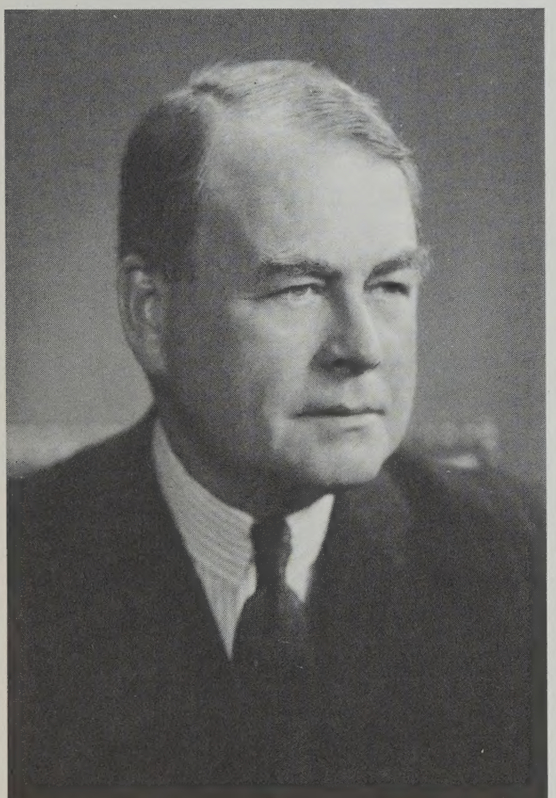
McCarthy & McCarthy, Toronto

Head Office

Gordon Mackay Road, Box 532, Toronto 15, Ontario

Auditors

Clarkson, Gordon & Co., Toronto



James W. Walker, Vice-President and Director

David M. Woods, President and Director

Robert J. O'Donnell, Director

One of Walker's specialized departments with the accent on Youth

Directors' Report to the Shareholders

Earnings continued to increase in the past year, gains coming from a combination of improved sales and more effective control of expenses.

Sales rose by 8.8% to $38,460,000. As no new stores were added during the year, this gain represented improved productivity from existing properties and equipment. Sales per square foot of selling space increased from $67 to $72.

Income after taxes at $581,000 rose by 16%, from the $501,000 earned in the previous year. Earnings from operations per Class 'B' share were $2.35, compared with $1.96. Improvement continued in the last quarter. These normal profit figures are before an extraordinary provision to write down the value of shares held as a long term investment, an amount of $100,000 being charged against this year's income.

Dividends continued to be declared and paid at the rate of 50¢ on both Class 'A' and Class 'B' shares. Working capital and shareholders' equity both rose, as noted in the financial statements.

Over a year ago the Company embarked on a long range planning program. While it is early to credit recent increases in income to this process, it should be noted that this planning has already served a number of useful short term ends. This program has identified a number of areas of opportunity in the organization, control and communication aspects of the business. Changes in management and store supervision have been developed, are now in effect and are showing promise. Better and more demanding methods of goal setting have been provided through more accurate budgeting and control. Communications have been developed through wide participation, understanding and commitment to the Company's objectives on the part of the management group.

The planning program is directed to long term higher profit levels to produce a satisfactory rate of return on shareholders' equity, which this year was 7.5% (before extraordinary write-down provision), compared to 6.8% in 1968.

It continues to be our intention to fund the special secured short term bank loans.

The outlook for the coming year is one of qualified optimism. Despite generally increased competition, which will be severe in a few locations, sales and profits should continue to increase. While the need for new stores is recognized in our plan, no decisions have yet been made in this respect, although we hope this year we may develop specific plans for the future.

Capital expenditures will be higher than last year and will produce significant changes in several key stores.

Our staff throughout have carried out their responsibilities enthusiastically and effectively. On behalf of the Directors, I record our appreciation to all of our associates.

On behalf of the Board
D. M. Woods
President

April 3rd, 1970.

Gordon Mackay & Stores Limited *(Incorporated under the laws of Ontario) and its subsidiaries*

Assets	1970	1969
Current assets:		
Cash	$ 141,417	$ 229,228
Accounts receivable	4,475,178	4,120,060
Inventories of merchandise valued at the lower of cost and net realizable value	4,770,282	5,236,852
Prepaid expenses and sundry assets	170,778	195,995
Total current assets	9,557,655	9,782,135
Deferred income tax charges	100,700	112,000
Investment in shares, at cost less write down (approximate market value 1970—$ 86,000; 1969—$145,000)	82,413	182,413
Properties and equipment (note 1):		
Buildings and equipment, at cost	9,893,230	9,789,735
Less accumulated depreciation	6,211,669	5,755,589
	3,681,561	4,034,146
Land, at cost	820,302	820,302
Total properties and equipment	4,501,863	4,854,448
	$14,242,631	$14,930,996

(See accompanying notes to financial statements)

Consolidated Balance Sheet January 31, 1970 *(with comparative figures at January 31, 1969)*

Liabilities	1970	1969
Current liabilities:		
Bank borrowings (note 2)	$ 4,358,792	$ 5,095,997
Owing for merchandise, wages, etc.	1,198,478	1,382,988
Taxes payable	393,067	427,934
Deferred income tax reductions	266,500	276,000
Total current liabilities	6,216,837	7,182,919
Mortgage payable	29,256	34,542
Shareholders' Equity.		
Capital stock—		
Authorized:		
300,000 Class A shares without nominal or par value, entitled to a fixed cumulative dividend of fifty cents per share per annum in priority to dividends on the Class B shares		
300,000 Class B shares without nominal or par value (note 3)		
Issued:		
201,600 Class A shares		
204,600 Class B shares (note 3)	390,000	385,000
Contributed surplus (unchanged during year)	2,674,494	2,674,494
Earned surplus	4,932,044	4,654,041
Total shareholders' equity	7,996,538	7,713,535
	$14,242,631	$14,930,996

On behalf of the Board:

D. M. WOODS, Director
J. W. WALKER, Director

Consolidated Statement of Income and Earned Surplus

Year ended January 31, 1970 *(with comparative figures for the year ended January 31, 1969)*

	1970	1969
Sales (including sales of leased departments)	$38,459,533	$35,356,991
Income before interest, depreciation, income taxes and extraordinary item	$ 2,239,527	$ 2,068,081
Interest	497,057	483,784
Depreciation	491,729	552,277
Income before income taxes and extraordinary item	1,250,741	1,032,020
Income taxes	669,700	531,000
Net income for the year before extraordinary item	581,041	501,020
Extraordinary item—write down of long term investment in shares	100,000	
Net income for the year	481,041	501,020
Earned surplus, beginning of year	4,654,041	4,355,159
	5,135,082	4,856,179
Dividends paid to shareholders:		
On Class A shares—50¢ per share	100,800	100,800
On Class B shares—50¢ per share	102,238	101,338
	203,038	202,138
Earned surplus, end of year	$ 4,932,044	$ 4,654,041
Net income for the year per Class B share after payment of fixed preferential dividend of 50¢ per Class A share (note 3) —before extraordinary item	$2.35	$1.96
—after deducting extraordinary item	$1.86	$1.96

(See accompanying notes to financial statements)

Consolidated Statement of Source and Disposition of Funds

Year ended January 31, 1970 *(with comparative figures for the year ended January 31, 1969)*

	1970	1969
Source of funds:		
Operations— Net income for the year before extraordinary item	$ 581,041	$ 501,020
Add charges (credits) that did not represent a source or disposition of funds during the year:		
Depreciation	491,729	552,277
Deferred income tax charges	11,300	(34,000)
Funds from operations	1,084,070	1,019,297
5% special refundable tax		24,669
Proceeds on sales of properties and equipment	13,118	19,967
Stock options exercised	5,000	19,000
Total funds provided	1,102,188	1,082,933
Disposition of funds:		
Dividends paid	203,038	202,138
Acquisition of properties and equipment	152,262	144,358
Mortgage principal repayment	5,286	4,909
Total funds used	360,586	351,405
Increase in working capital	741,602	731,528
Working capital, beginning of year	2,599,216	1,867,688
Working capital, end of year	$ 3,340,818	$ 2,599,216

(See accompanying notes to financial statements)

Notes to Consolidated Financial Statements

January 31, 1970

1. Depreciation is written by the company at maximum rates normally permitted for income tax purposes (except for improvements to buildings leased for more than 15 years which are amortized more quickly than the maximum tax rates). The rates used are considered to reflect fairly the useful life of each type of asset used by the company. A summary of depreciable assets and accumulated depreciation is as follows:

	Cost	Accumulated depreciation
Buildings owned	$3,200,910	$1,230,643
Improvements to leased buildings	909,098	494,124
Furniture and equipment	5,783,222	4,486,902
	$9,893,230	$6,211,669

2. The company's bank borrowings (except for borrowings of a subsidiary operation) are secured by a first mortgage on properties and equipment and a floating charge on all of its other assets (other than the assets, totalling approximately $2,200,000 of the said subsidiary operation).

3. During the year, under the company's Incentive Stock Option Plan, options were exercised on 500 Class B shares at $10.00 per share. At January 31, 1970, there were outstanding options on 14,500 shares (12,000 shares at $10.00, 500 shares at $11.00 and 2,000 shares at $12.50) expiring at various dates between 1970 and 1977.

In February 1970 options expiring in 1980 were granted on 2,500 Class B shares at $18.50 per share.

If the options to purchase Class B shares had been exercised at the beginning of the year, the fully diluted net income per Class B share after payment of fixed preferential dividend of 50¢ per Class A share would have been

	1970	1969
—before extraordinary item	$2.22	$1.86
—after extraordinary item	1.77	1.86

Leases: The company occupies its head office premises and 27 retail store locations on long term leases for periods extending up to 20 years. Total rentals paid in the fiscal year ended January 31, 1970 on premises on long term lease amounted to $672,000, including $81,000 under percentage of sales clauses.

Pension plans: Under the company's pension plans adopted in prior years, the company incurred obligations with respect to the past service of employees. At January 31, 1970 the total unfunded past service obligation is approximately $497,000 which is being absorbed by annual payments of $36,633 as recommended by the company's consulting actuary.

Statutory information: The aggregate of direct remuneration paid to directors and senior officers and bonuses accrued with respect to the year ended January 31, 1970 was $190,417. The amount of bonuses paid in the year with respect to the preceding year's bonus accrual was $52,208.

Auditors' Report to the Shareholders of Gordon Mackay & Stores Limited:

We have examined the consolidated balance sheet of Gordon Mackay & Stores Limited and its subsidiaries as at January 31, 1970 and the consolidated statements of income and earned surplus and source and disposition of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at January 31, 1970 and the results of their operations and the source and disposition of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also examined the five year review which is presented as supplementary information and, in our opinion, this statement presents fairly the information shown therein.

Toronto, Ontario, March 25, 1970.

Clarkson, Gordon & Co., *Chartered Accountants*

Five Year Review for years ended January 31

(Thousands)

	1970	1969	1968	1967	1966
Net income for the year before extraordinary items	$ 581	$ 501	$ 399	$ 83	$ 347
—per Class B share	2.35	1.96	1.48	(.09)	1.22
Net income for the year after extraordinary items	481	501	399	123	514
—per Class B share	1.86	1.96	1.48	.11	2.05
Dividends paid per Class B share	.50	.50	.50	.50	.50
Dividends paid on Class A and Class B shares	203	202	202	202	202
Income statement details:					
Sales (including sales of leased departments)	38,460	35,357	34,150	33,300	28,394
Rentals	672	676	644	646	626
Depreciation	492	552	624	720	555
Interest	497	484	467	357	156
Income taxes	670	531	399	59	295
Year end position:					
Accounts receivable	4,475	4,120	4,087	3,934	3,101
Inventories	4,770	5,237	4,722	4,942	4,206
Bank borrowings (note)	4,359	5,096	5,833	6,945	3,178
Working capital	3,341	2,599	1,868	991	3,033
Shareholders' equity	7,997	7,714	7,396	7,198	7,278
Property and equipment additions	152	144	145	2,712	1,506

Note:

Bank borrowings include special short term borrowing made for expansion purposes: 1970—$2,918,700; 1969—$3,518,700; 1968—$4,251,000; 1967—$4,251,000; 1966—$975,000.

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TRULY CANADIAN

INTERIM REPORT

for the six months ended July 31, 1971

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GORDON MACKAY & STORES LIMITED

GORDON MACKAY & STORES LIMITED

The following statements are unaudited and subject to year-end adjustment.

CONSOLIDATED STATEMENT OF INCOME
Six Months ended July 31, 1971

	Second Quarter May 1 — July 31 (In Thousands)		Six Months Ended July 31 (In Thousands)	
	1971	1970	**1971**	1970
Sales (including leased departments)	**$8,599**	$9,447	**$16,396**	$17,510
Deduct:				
Cost of sales and operating expenses exclusive of items shown below	**8,311**	9,144	**16,105**	16,949
Rentals	**227**	225	**442**	437
Depreciation	**102**	109	**200**	215
Interest (1971 to date includes $143,000 on long term debt)	**93**	128	**193**	248
	8,733	9,606	**16,940**	17,849
Loss from operations before income taxes recoverable	**134**	159	**544**	339
Income taxes recoverable	**72**	85	**291**	181
Loss from operations for period	**$ 62**	$ 74	**$ 253**	$ 158

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF FUNDS
Six Months ended July 31, 1971

	Second Quarter May 1 — July 31 (In Thousands)		Six Months Ended July 31 (In Thousands)	
Source of Funds:	**1971**	1970	**1971**	1970
Operations—				
Loss from operations for period	**$ 62**	$ 74	**$ 253**	$ 158
Add back depreciation (no cash outlay)	**102**	109	**200**	215
	40	35	**(53)**	57
Stock Options exercised	**—**	—	**2**	86
Total funds provided	**40**	35	**(51)**	143
Disposition of Funds:				
Acquisition of properties and equipment	**57**	47	**118**	104
Dividends paid	**52**	52	**103**	103
Mortgage principal repayment	**11**	—	**22**	—
Total funds used	**120**	99	**243**	207
Reduction in working capital during period	**$ 80**	$ 64	**294**	64
Working capital, beginning of year			**6,668**	3,341
Working capital, end of period			**$ 6,374**	$ 3,277

To The Shareholders:

Sales for the second quarter are lower than those of last year, continuing the trend of the first quarter. This is contrary to the retail industry, and reflects new competition in some of our major markets, together with a reduction of sales generated last year by heavy markdowns. It is expected that better planning will result in sales gains in the Fall period.

For the six months to July 31st, losses increased by $95,000 to $253,000 as anticipated earlier. It is encouraging that the results of the second quarter showed a modest improvement over the comparable period of last year, despite the reduction in sales volume. This was the result of better operating margins, particularly lower markdowns brought about by maintaining significantly lower inventory levels, and continued effort to control expenses.

The second half-year should continue to show better results and by the year-end profits should approximate those of a year ago and, hopefully, may show an increase.

To simplify its corporate structure, the Company has amalgamated its subsidiaries under the name Walkers Stores Limited effective August 1st, 1971.

Submitted on behalf of the Board.

D. M. Woods
President

August 19, 1971
TORONTO, ONTARIO, CANADA

WALKERS STORES LIMITED

The subsidiary Company operates retail stores in:

Arnprior
Barrie
Belleville
Bowmanville
Brantford
Brockville
Chatham
Collingwood
Dunnville
Galt
Guelph
Kitchener
Lindsay
London
Midland
Newmarket
Niagara Falls
North Bay
Orillia
Oshawa
Owen Sound
Pembroke
Peterborough
Port Colborne
Renfrew
St. Catharines
St. Thomas
Sault Ste. Marie:
  Churchill Plaza
  Queen Street
Simcoe
Smiths Falls
Stratford
Thunder Bay
Tillsonburg
Toronto:
  Cloverdale Mall
  Dixie Plaza
  Dufferin Plaza
  Rexdale Plaza
  Shoppers' World
Woodstock
and
Smith's of Windsor, Windsor, Ontario